

CAPITAL PROJECTS AND BOND OVERSIGHT COMMITTEE

Minutes

August 20, 2002

The Capital Projects and Bond Oversight Committee met on Tuesday, August 20, 2002, at 9:00 AM, at the Western Kentucky University's Kentucky Building. Representative Jodie Haydon, Chair, called the meeting to order, and the secretary called the roll.

Present were:

Members: Representative Jodie Haydon, Chair; Senators Tom Buford, Bob Jackson, and Robert Leeper; Representatives Robert Damron and Jim Wayne.

Guests testifying before the committee: President Gary Ransdell, Western Kentucky University; Ken Clevidence and Allene Rash, University of Kentucky; Jim Abbott, Jack Morris, Glenn Mitchell, and Commissioner Armond Russ, Finance and Administration Cabinet; and Randall Hancock, Cabinet for Families and Children.

LRC Staff: Mary Lynn Collins, Pat Ingram, Nancy Osborne, Kevin Mason, and Dawn Groves.

Chairman Haydon thanked President Ransdell for inviting the committee to meet at Western Kentucky University (WKU). He said it is a good opportunity to see how the state's money has been invested on the WKU campus.

President Ransdell welcomed committee members to the university. He said there is a transformation taking place at WKU, and they are very excited about the progress being made. He said the university has \$136 million in capital construction either underway or scheduled for the coming year. He said the university is very encouraged about where it is heading as an institution, largely because of its partnership with state government and the legislature. Dr. Ransdell said he is very grateful to be able to work with the committee to help bring about WKU's transformation. WKU is the fastest growing university in the state; the student population was up 1,100 students last year, and will be up that much or more this year.

Representative Damron made a motion to approve the minutes of the July 16 meeting as submitted. The motion was seconded by Senator Buford and passed by voice vote.

Chairman Haydon called on Mary Lynn Collins, Committee Staff Administrator, to review correspondence included in members' folders. The first item was follow-up correspondence from Finance and Administration Cabinet Secretary Kevin Flanery assuring the committee that he would keep members informed of capital projects initiated under the Governor's spending plan. The second item of correspondence was follow-up correspondence from Chairman Haydon to universities regarding the close out of capital project accounts and the Governor's spending plan. Ms. Collins said also included in members' folders was the Diddle Arena Quarterly Progress Report submitted by WKU, annual reports from the Administrative Office of the Courts and the Cabinet for Economic Development, and the Kentucky Lottery Corporation's monthly financial report for June 2002.

Representative Wayne noted that approximately \$3.7 million in unclaimed lottery winnings from the Kentucky Lottery Corporation will go to the Affordable Housing Trust Fund at the end of the current fiscal year.

Ms. Collins briefly summarized one information item in members' folders - a notice from Moody's Investor Services removing the state from their "watch list" for a possible bond rating downgrade.

Chairman Haydon said the first item of new business was a project report submitted by WKU relating to a food service management contract. He asked that this item be tabled until the committee's September meeting in order to better study the issues surrounding this contract.

Senator Jackson made a motion to table the WKU project report. The motion was seconded by Representative Wayne and passed by voice vote.

Chairman Haydon called on Mr. Ken Clevidence, Vice President for Fiscal Affairs, University of Kentucky (UK), to discuss a new lease. Mr. Clevidence introduced Ms. Allene Rash, Real Property Manager, UK. Mr. Clevidence said last December the university advertised for office and classroom space in downtown Lexington. Two responses were received, one from Webb Companies and one from Kentucky Utilities (KU). Mr. Clevidence said KU offered space at \$6 per square foot with an understanding UK would provide certain services/promotional incentives. The incentives were negotiated through the best and final process, and have a value of \$5.81 per SF, for a total of \$11.81 per SF. He noted that UK is currently paying between \$15-\$18/SF for comparable space.

Mr. Clevidence said they originally advertised for 35,000 SF, but the space was increased to 49,026 SF. He said they are leasing the sixth, seventh, and eighth floor of the KU building on Quality Street in Lexington. The total annual cost of the lease is \$294,156. Mr. Clevidence said the in-kind incentives which UK will provide include: a

Lexington *Herald-Leader* ad advertising the cooperative spirit between KU and the university, an engineering professorship in the College of Engineering in the name of KU, advertisement/signage in Rupp Arena and Commonwealth Stadium, and plaques on the KU building. Mr. Clevidence said this lease was included in House Bill 1, the Governor's spending plan.

Senator Leeper said this lease was unusual in that it included in-kind services/promotional benefits as part of the lease cost, and asked how this lease was negotiated. Mr. Clevidence said there were some preliminary discussions between the university and KU prior to advertisement for the lease. KU first approached the university because they had additional space available, and the university indicated they would have to advertise so other people would have the opportunity to submit a proposal for space.

Senator Leeper asked why UK limited the space sought to downtown Lexington. Mr. Clevidence said they had been working with the Lexington Fayette Urban County Government (LFUCG) for several years to try to bring some university presence to the downtown area.

Senator Leeper asked if there are other tenants in the KU building. Mr. Clevidence said KU occupies the remainder of the building.

Senator Jackson said under current statute, the state's leases must have a 30-day cancellation clause. He asked how long the cancellation period was in the university's lease. Mr. Clevidence responded that the cancellation period for this lease was 365 days. Senator Jackson said that appears to be in conflict with the statute. Mr. Clevidence said the university's counsel has issued an opinion that the 365-day cancellation clause was appropriate under the statute. Senator Jackson said he was not sure the committee could approve something that may be in conflict with current statute, and made a motion that the committee request a legal opinion from the Attorney General regarding the 365-day cancellation clause. The motion was seconded by Representative Damron and passed by voice vote. Representative Wayne abstained from the vote due to a potential conflict of interest.

Senator Leeper made a motion that the Attorney General also review the UK lease for the appropriateness of the terms of the lease (in-kind services and promotional benefits). The motion was seconded by Senator Jackson and passed by voice vote. Representative Wayne again abstained from the vote due to a potential conflict of interest.

Representative Damron asked why the university set such a narrow parameter for finding leased space. Mr. Clevidence said the university decided on a desired location based on things such as parking availability. He said they very consciously narrowly defined the area that they thought was appropriate for the university.

Representative Damron asked how far was the Webb Companies' property from the selected location. Mr. Clevidence said the Webb Companies' property was approximately five blocks away. He said they did not seek a best and final offer from the Webb Companies. Since the KU building was much more attuned to what the university was trying to accomplish, they proceeded to negotiate with KU.

Representative Damron said this lease raises questions as to whether the Request for Proposal (RFP) was written so narrowly that it almost selected the individual to get the lease. He expressed concerns about an earlier statement made that UK had preliminary discussions with KU before the RFP went out. Mr. Clevidence said the university came out very well as far as the cost per square foot and the locale. He said there were some preliminary contacts from KU to the university, and between the university and the LFUCG. He said the transportation center is directly across the street from the building and this was a factor in the final decision, and the building also has its own parking structure. He said the space offered by the Webb Companies was not comparable to what KU offered. Mr. Clevidence said the university will not have to do any kind of reconfiguration; the space is in move-in condition.

In response to a question from Senator Buford, Mr. Clevidence said UK has not yet moved into the facility. He said the only work required on behalf of the university will be to expand the computing capability of the facility.

Senator Buford asked if a lease contract has already been signed with KU, and if so, are they aware of the current discussion about the 365-day cancellation terms. Mr. Clevidence said they are aware of the discussions, and he would inform them of the committee's action.

Chairman Haydon said the next two items were reports submitted by Northern Kentucky University (NKU) and the University of Louisville. NKU submitted a report of a new lease, procured under an emergency declaration, due to a shortage of on-campus student housing and an increase in enrollment. The university plans to lease 13 two-bedroom apartments to accommodate 52 students. The lease is temporary, as the university will have a new dormitory open for the fall 2003 semester. The cost of the lease is \$85,293 for a nine-month term. The University of Louisville submitted a request to purchase a near-field scanning optical microscope. The cost of the equipment is \$139,900, and the funding source is a research grant. Chairman Haydon said these reports did not require action, and representatives from the universities were not asked to attend the meeting.

Chairman Haydon next introduced Mr. Jim Abbott, Director of the Division of Real Properties. He noted that this is Mr. Abbott's final meeting since he is retiring. Mr. Abbott introduced Mr. Jack Morris, the new director of the Division of Real Properties.

Mr. Abbott reported two lease agreements. He reported a new lease for the Cabinet for Families and Children (PR-4613) in Boone County. This lease will replace PR-1055, which was reported to the committee two years ago. He said the lessor of PR-1055 had difficulty getting the proper zoning and construction permits, and after several months of delays, he was required to withdraw from the project, so that lease was never executed. The annual cost of the new lease (PR-4613) is \$233,156.

Representative Wayne asked where the building is located in Florence. Mr. Randall Hancock, Cabinet for Families and Children, said the building is located off the expressway, and is on the bus line. He said there are sidewalks, but he was not sure if clients were able to walk to the building unless they live close by.

Representative Wayne said when state office buildings are located outside of the core community, it is not smart growth. Locating a building right off the expressway adds to suburban sprawl.

Representative Damron asked why the Cabinet needs 17,000 SF instead of the 10,000 SF currently leased. Mr. Abbott said the agency had added some space to accommodate new staff people that the regional administrator requires, and an additional visitation area not included in the earlier space planning.

Representative Damron asked how the increase in lease costs will be paid. Mr. Hancock said the money was allocated as a line-item in the budget. He said the money is not being taken from services for children and families.

Representative Damron said with the budget as tight as it is, having plush offices for state workers is not a good signal to send to clients while at the same increasing required co-pays on Medicaid assistance or cutting back on client assistance.

Representative Damron asked if there would have been more bidders if the Cabinet had advertised for 11,000 SF instead of 17,000 SF. Mr. Hancock said 11,000 SF would have not met their needs. He said the Cabinet has added a considerable number of staff. The office will be a one-stop center, and will provide services for Protection and Permanency, Family Support, and Child Support programs; also, child care service agents and the administrative office for the service region will be housed in that office. In addition, the Cabinet has designated that location as a regional training center.

Mr. Abbott added that the Cabinet has been at its current location in Florence since the late 1970s. He said they have added space on a number of occasions. He said the layout of the property is inefficient, and the building has mechanical problems. Mr. Hancock added that the building has severe air quality problems, and a number of roof leaks the landlord has been unable to repair. The leaks continue through the ceiling tiles

and insulation, consequently leading to unsafe levels of mold and build-up. There are also problems with the HVAC, and the CO2 levels have registered at unsafe limits. He said the landlord has tried to rectify the situation, but the problems continue. He said the proposed new office is not opulent, but professional office space.

Senator Buford asked how many employees are in the facility now. Mr. Hancock said there are 68 employees. Mr. Abbott added that employees are doubled and tripled in the current office configuration.

Senator Jackson made a motion to approve the new lease for CFC. The motion was seconded by Representative Wayne. Representative Damron voted "No".

Mr. Abbott next reported a new lease contract for the Cabinet for Health Services (CHS), Office of Inspector General (PR-4668). Mr. Abbott said this lease will relocate the Office of Inspector General from Eastern State Hospital (ESH) to the Leestown Road Veteran's Medical Center. The office is moving in order to improve delivery of services. The lessor is the Federal Veterans Affairs (VA) Medical Center, Leestown Division, and the annual cost of the lease is \$238,427. Mr. Abbott said the Cabinet also plans to lease a portion of the Medical Center to house patients currently being served at ESH.

Representative Damron asked what the timeline was for moving patients and related functions to the VA hospital. Mr. Abbott said they do not have a timeline yet for the lease of the clinical space. He said a proposal has been submitted to Washington for approval.

Representative Damron asked what will happen to the ESH campus once the cabinet vacates. Mr. Abbott said they have reassigned a portion of the campus to the Department of Juvenile Justice, and they are building a juvenile treatment facility there. He said they are considering various alternatives for the main campus, but no decisions have been made.

Representative Damron made a motion to approve the Cabinet for Health Services lease. The motion was seconded by Senator Jackson and passed by voice vote. Representative Wayne voted "No". He said there is no enacted budget authorizing this lease, and the rationale for approving this lease would be based on the Governor's spending plan.

Lastly, Mr. Abbott reported on space modifications for four leases processed during the quarter of April through June 2002. Each of the four lease modifications were made to increase the amount of leased space. Chairman Haydon indicated that because all of these modifications are under \$50,000, no action was required by the committee.

Chairman Haydon asked Ms. Collins to read a proposed resolution honoring Mr. Abbott. Senator Buford made a motion to adopt the resolution. The motion was seconded by Representative Damron and passed by voice vote. Mr. Abbott thanked the committee and said he appreciated the role of the committee and the questions asked. He said he believed the committee made people in his position do a better job.

Senator Buford made a motion to adopt a second resolution honoring Ms. Debby Milton, KIA Secretary, who retired in July. The motion was seconded by Senator Leeper and passed by voice vote.

Chairman Haydon asked Mr. Glenn Mitchell, Deputy Finance Secretary, and Armond Russ, Commissioner of the Department for Facilities Management, to present the monthly Finance and Administration Cabinet report. He said Mr. Hintze, who normally presents the Finance report, is at the annual meeting of the National Association of State Budget Officers, where he is to receive the highest honor bestowed by that organization, the Gloria Timmer Award.

Mr. Mitchell reported a \$50,000 scope increase for the KCTCS Somerset Community College Stoner Building project. Mr. Mitchell said this HVAC renovation project had an anticipated scope of \$399,000; however, after several bidding efforts, they were unable to keep the cost under \$400,000.

Representative Wayne asked if this project was part of the Governor's spending plan. Mr. Mitchell said the Governor's spending plan is based on the proposed fiscal year 2003 appropriations contained in House Bill 1, 2002 Regular Session, as introduced. The Community College project was included in House Bill 1, but was proposed for Fiscal Year 2002, not Fiscal Year 2003. For that reason, the Stoner Building project is not in the Governor's spending plan.

Representative Wayne asked if this project was considered an essential government service. Mr. Mitchell said he was not sure, but as an HVAC project, it is fairly important to the operation of the facility. Representative Wayne said there is no budget, and he could not support the project.

Senator Jackson made a motion to approve the scope increase. The motion was seconded by Senator Buford. Representative Damron amended the motion to require that any approval given on this project be subject to the final approval by the Appropriations and Revenue (A & R) Committee and the appropriate Budget Review Subcommittee of the A & R Committee. The amended motion was seconded by Senator Buford and passed by voice vote. Representative Wayne voted "No". The revised project scope is \$449,000.

Representative Damron said if the legislature is going to deviate from the budgetary process and from the spending plan, it is important that the legislative

committee in charge of the budget and the appropriations be involved in this decision-making process and that it not be a purely executive decision process.

Chairman Haydon then recognized and welcomed Representative Rob Wilkey.

Mr. Mitchell next discussed two unbudgeted federally-funded projects for the Department of Military Affairs. The first project was a 500-seat auditorium to be constructed at the Boone National Guard Center in Frankfort. The project scope is \$820,000. Senator Buford made a motion to approve the auditorium project. The motion was seconded by Senator Jackson and passed by voice vote. Representative Wayne voted "No".

The second project Mr. Mitchell discussed was an addition to the Facilities Office Building, also at the Boone National Guard Center in Frankfort. The project scope is also \$820,000. Senator Buford made a motion to approve the Office Building addition. The motion was seconded by Senator Jackson and passed by voice vote. Representative Wayne voted "No".

Mr. Mitchell next reported that the Finance Cabinet has approved a request by the Transportation Cabinet to design a Statewide Transportation Operations Center (STOC). Mr. Mitchell said this project was listed in House Bill 1, 2002 Session for FY 2004. However, the Cabinet recently received notification that the federal highway bill earmarked \$1,650,000 for construction of this center. Mr. Mitchell said the Cabinet would like to proceed with the project now since it is to be in the new building currently under construction.

Representative Wayne asked if this is an essential government service. Mr. Mitchell said the room is the operations center for the vehicle enforcement office, and would be used during any type of weather emergency.

In response to a question from Senator Jackson, Mr. Mitchell said Road Funds can be used to design this project since it relates to the operations of highways, and another \$1.4 million will eventually be required from the Road Fund to complete this project.

Senator Jackson made a motion to approve the unbudgeted project. The motion was seconded by Representative Wayne. Representative Damron amended the motion by making the approval be subject to the final approval by the Budget Review Subcommittee on Transportation and the Appropriations and Revenue Committee. The motion was seconded and passed by voice vote.

Representative Damron said this project is state funded and in part impacts the state budget, and it is imperative that the General Assembly be involved in any expenditure of state money.

Mr. Mitchell reported that the Park's Department has approved the use of the remaining balance of funds (\$135,231) from the Dale Hollow State Park Lodge guestroom project to purchase furnishings for the New Conference project. Chairman Haydon said this project did not require action.

Chairman Haydon said the next agenda item was a bond activity report from the Office of Financial Management. He said because most of this report did not require any action, representatives from this office were not asked to attend the meeting. He asked Ms. Collins to report on those items.

Ms. Collins reported a KIA Fund F loan in the amount of \$3,000,000, for the Madison County Utility District. The funds will be used to make water system improvements, build a 500,000 gallon storage tank, and to install 30 miles of water lines.

Senator Jackson made a motion to approve the Fund F loan. The motion was seconded by Representative Wayne and passed by voice vote.

Ms. Collins next reported six new 2020 Account/Fund B Grants: Bath County Water District - Regional water service expansion to Owingsville and Frenchburg; Harrison County Water Association-U.S. 62/Oddville area storage tank and pump station; Lake Williamstown Expansion Committee - Study feasibility of new downstream dam; City of Nicholasville - Acquisition of system for regional consolidation; City of Richmond Utilities Board - Waterline replacement; and Trimble County Water District #1 - Waterline extension (2 projects). Ms. Collins said the committee approved these projects in January, and no further action was required.

Ms. Collins also noted two follow-up bond reports in members' folders: Kentucky Housing Corporation Housing Revenue Bonds, 2002 Series D (AMT), \$50,000,000; and Kentucky Higher Education Student Loan Corporation Senior Taxable Student Loan Revenue Bonds, 2002 Series A-1, A-2, and A-3, \$150,000,000.

Ms. Collins reported four new bond issues with School Facilities Construction Commission (SFCC) debt service participation: Bourbon County, Hardin County, Harrodsburg Ind. (Mercer Co.), and Morgan County.

Representative Damron made a motion to approve the school bond issues. The motion was seconded by Senator Jackson and passed by voice vote. Representative Damron explained that he voted for the four issues, rather than following his usual practice of abstaining, since none involve his company.

Senator Buford noted there were labor representatives present, and Chairman Haydon invited the guests to speak. Mr. Tom Shultz, Assistant Business Manager,

Kentucky State District Council of Carpenters (KSDCC), said they were in attendance to see the legislature at work. Representative Wayne welcomed the KSDCC and thanked them for all the good work they do in the state to make sure the construction projects are done properly, and that the men and women working on those projects are paid decent living wages and quality benefits.

Representative Damron made a motion to adjourn the meeting. The meeting adjourned at 11:20 a.m.